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SUBJECT: HYDRO QUEBEC CHANGES COURSE, AFTER SUROIT
SETBACK

REFERENCE: MONTREAL 451; CALGARY 547

1. SUMMARY: Environmental NGOs and community activists have drawn sufficient negative attention to Hydro Quebec's proposal to build the Suroit natural gas plant near Montreal that the utility appears to have shelved the project. The provincial legislative commission that had been tasked to consider the Suroit plant in view of Quebec's future energy needs will hold hearings in the next several months. However, Hydro Quebec has already changed course, selling off its gas assets, promoting energy consumption savings, investing in wind power projects, revising its forecasts of Quebec's energy supply, and above all, counting on other big hydro projects, expected to come on line in the next decade. Quebec Premier Jean Charest, on recent trips to northern Quebec and Boston, has been supportive of HQ's approach. END SUMMARY.

PUBLIC TRUST IN HYDRO QUEBEC FALTERS

2. For decades, Hydro Quebec (HQ) was a shining symbol of Quebec pride in the province's economic advancement through engineering and business expertise and political vision. But the utility's public image began declining in the late 1980s following the failure of the Great Whale project, a proposed dam project in northern Quebec that would have flooded an area almost the size of New Jersey on Cree land. Other factors which combined to shake public trust in Hydro Quebec, whose sole shareholder is the Quebec government, included negative reaction to cheap energy deals given to aluminum companies, a series of black outs culminating in the 1998 ice storm, and growing environmental awareness and activism.

3. HQ said last Spring that its plan to build Le Suroit, an 850 MW gas power plant, was necessary in order to help bridge a projected provincial energy shortage which would be most acute during the 2005-2007 period but which could resurface any time water levels diminish. But in the wake of a bruising campaign against the plant by Greenpeace and other environmental and community activists and a fence-sitting report from Quebec's independent energy regulatory commission, the Regie de l'energie, which deemed the Suroit "not indispensable," HQ appears to have shelved the project, despite the Regie's conclusion that the decision to go forward should be the provincial government's. While preparing for the provincial legislative commission hearings that have been tasked to evaluate the project in light of Quebec's future energy needs, HQ has discreetly embarked on a campaign to regain its public standing, and continues to shore up other energy capacity building projects.

MOVING TO "CLEANER" ENERGIES

4. Coinciding with the release of the Regie report, HQ announced last June that it was selling for \$C900 million its 50.4 percent stake in Noverco (an oil and gas holding company) to a consortium headed by Quebec's pension fund manager, the Caisse de depot et placement. HQ said that the sale would reduce its involvement in energies considered less "clean" than hydro, but it also enabled the utility to increase income in a year when export sales were down.

5. As part of its overall move to "cleaner" energy, in early October, HQ announced it would be buying 990 MW in wind-generated electricity (Calgary reftel). The projects, which will generate \$1.9 billion in investments, will make HQ Canada's largest wind power purchaser and provide much needed employment in the Gaspé peninsula and Magdalen Islands, Quebec's poorest region. HQ confirmed to post that the decision to locate all the wind farms in Gaspé was political. The Gaspé's economy has been almost completely resource-based but fish catches, forests and mines have all been

depleted.

BACKING ENERGY EFFICIENCIES

16. Also in October, HQ announced an energy efficiency plan, which still has to be approved by the Regie, containing \$1 billion in energy efficiency investments. HQ estimates that the new plan, to be announced in detail in mid-November, will save 3 TWh of energy by 2010. President Andre Caille said HQ intends to continue asking for rate increases of two to three percent a year, raising over time the price that Quebecers pay for their energy. The energy efficiency plan will include rebates for home renovations and purchase of certain energy-saving appliances.

REVISION OF PROJECTED ENERGY NEEDS

17. The wind power contracts and the plan to achieve increased energy efficiencies enabled HQ to adjust its August 2003 Electricity Supply projections. On November 1, HQ announced the adjustment, acknowledging that industrial demand for energy has also declined. HQ was able to recuperate up to 175 MW over the next 25 years, thanks to Premier Charest's decision to renege on the promise made by his predecessor to help Alcoa expand its Baie-Comeau plant. One other factor contributing to the utility's adjustment of supply projections was the record rainfall in northern Quebec during the summer that replenished water levels in HQ reservoirs to unprecedented levels. HQ evaluated its new capacity gains at 0.7 TWh for wind power, 1.5 TWh for energy savings and 2.9 TWh for reduced industrial demands.

CLEARING THE ROAD FOR MORE HYDRO PROJECTS

18. Hydro General Manager for Communications and Environment Pierre-Luc Desgagnes told post that HQ is hoping its recent decisions will clear the road for the next series of big hydro projects, such as the 1500 MW La Romaine Complex on Quebec's Lower North Shore region, construction for which could start in 2008 if government authorizations are granted according to plan. HQ is hoping those authorizations will be facilitated by the upcoming parliamentary commission.

19. NGOs are already gearing up for battle, however, maintaining that the consensus established by the last parliamentary commission in 1995-96 should be maintained. That commission, held in the wake of the Great Whale project fiasco, was in large part responsible for a decade during which HQ's dam builders (so-called castors in French or beavers) were kept idle. On October 26, the Coalition Quebec-Vert-Kyoto (CQVK) an umbrella group of 60 NGOs, held a press conference during which it asked the Charest government to impose a moratorium on all thermal power plants (including co-generation), oil and gas exploration or pipeline building, and the building of an LNG port anywhere along the Gulf of St-Lawrence.

PREMIER CHAREST'S ENERGY VISION

110. On October 29, Premier Charest flew for the first time to northern Quebec, where he participated in an HQ-organized commemoration of the 25th anniversary of the La Grande 2 dam complex, in its day the largest hydropower development in the world. Charest praised the foresight of his Liberal parti predecessor Robert Bourassa, after whom the complex is named, for supporting and promoting the development of hydropower in Quebec. A week later in Boston, Charest was again quoting Bourassa and affirming his own will to make northern Quebec the spearhead of Quebec electricity exports to the U.S. According to press accounts, before a group of 300 energy specialists at the U.S.-Canada Energy Trade and Technology Conference, Charest said that "in the short term, Quebec faces restrained supplies until 2007," but that in 2008-2009, when a series of dam projects are expected to start coming on line, Quebec will be in a much better position to export. Charest also met with Massachusetts Governor Mitt Romney, with whom he reportedly discussed both border and energy security issues.

111. Charest told the energy conference that diversification is becoming essential but "that hydroelectricity will always be our first choice." According to La Presse, Charest also affirmed that his government's priority is the Quebec market and keeping electricity prices, which he said are "300 percent less in Quebec than in the State of New York," as low as possible.

112. Comment: Opinions differ at the upper echelons of

HQ on whether or not the Quebec public is ready to accept new large-scale hydro projects. Recent rate hikes may temper public receptiveness to environmental activism against non-wind, non-solar capacity building projects. But the final decision on whether to build more hydro projects will rest with the provincial government. Charest has been supportive of big hydro development in his remarks to audiences in Boston and in northern Quebec but he will need to support HQ's agenda closer to home if the utility is going to put its beavers back to work. End Comment.

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